economic trends

August 2012

Alberta's solid economic expansion continues

The latest indicators of economic activity suggest a healthy rate of economic expansion in Alberta. Consumer spending remains robust, though growth in some business indicators, such as manufacturing sales and exports, have eased in recent months.

This month's Infocus looks at trends in labour force participation patterns in Alberta.

Key Indicators

All indicators seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	July	2,150	2.2%
Unemployment Rate	July	4.6%	-0.9 p.p.
CPI Inflation	July	0.9%	-1.1 p.p.
Retail Sales	June	$5.63B	+6.6%
Housing Starts (annualized)	July	31,500	+23.5%
Rigs Drilling (unadjusted)	August	223	-30.9%
Manufacturing Shipments	June	$6.0B	+5.8%
Exports	June	$7.7B	-1.1%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Global Economy

Anticipation of government action helps rally financial markets

Recent economic indicators have temporarily eased fears of a further slowdown south of the border. In July, US job creation (+163,000) picked up, while retail sales rebounded sharply after three monthly declines. The US housing market is also showing signs of life: July housing starts were up 23.5% year-over-year (y/y), and the S&P/Case-Shiller house price index has started to inch higher.

Despite some hopeful signs, the US economy is still expected to record modest growth of around 2% this year, held back by fiscal restraint and weak gains in consumer spending. This growth is considered too weak to bring down the unemployment rate, which remains elevated at 8.2%.

In response to weak economic conditions, policy makers stand ready to act. In the US, the Federal Reserve has signaled that additional monetary easing may be necessary. In Europe, the President of the European Central Bank has announced that it may purchase government bonds of troubled economies to lower bond yields. Hopes of new stimulus have contributed to a rebound in global financial and commodity markets.

Oil prices rebound

After hitting a 10-month low in late June, oil prices have climbed back into the mid $90/bbl range, boosted by renewed tensions in the Middle East and anticipation of new government measures to promote growth.

Loonie hits highest level since April

The Canadian dollar has recovered to levels not seen since April 2012, buoyed by record international capital inflows. The Loonie has traded above parity against the US dollar since the beginning of August.

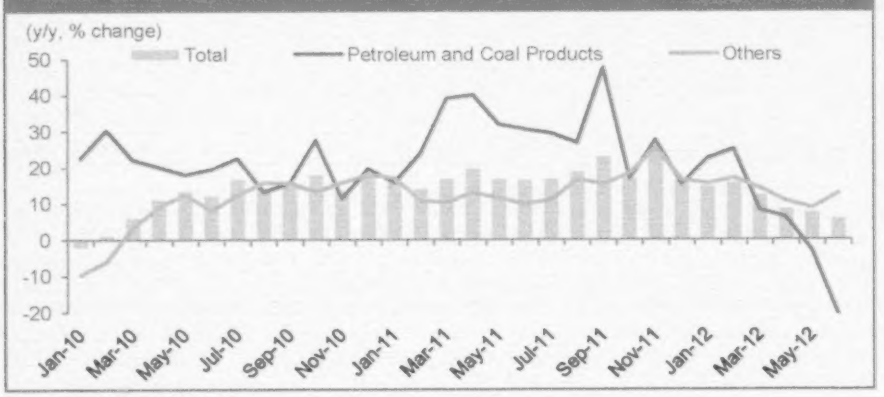
Business Sector

Business activity remains strong, but growth in key indicators eases

After a sharp run-up in early 2012, certain indicators point to moderating growth in business sector output. In the manufacturing sector, shipments advanced 7.2% in the second quarter compared to the same time last year, down from 14.2% in the first quarter. Most of the deceleration reflects a decline in petroleum and coal products (see Chart 1), which were hurt by lower prices and a scheduled shutdown at Imperial Oil's Strathcona refinery. Despite the recent moderation,the manufacturing sector has still posted an impressive 10.6% increase in shipments year-to-date.

Alberta's international trade performance has also slowed in recent months. Pulled down by lower oil prices and chemical shipments, June exports were down from the same month last year, representing the first year-over-year decline since December 2009. Second quarter export growth fell to 5.5% y/y after a 12.9% y/y increase in the first quarter, in large part reflecting the impacts of lower oil prices.

Chart 1: Growth in Alberta Manufacturing Shipments



Source: Statistics Canada

However, year-to-date exports are still strong. Through the first half of 2012, Alberta exports have grown 9.2% compared to the first half of 2011.

Construction cost escalation picks up slightly

Non-residential construction costs in Edmonton and Calgary grew by an average of 4.3% in the first half of 2012 over the same time last year. This is up from 3.4% in 2011, but still well below the double digit average pace recorded over the 2004-2008 period.

Household Sector

Alberta job growth fueled by gains in the private sector and full-time positions

Alberta continues to create jobs, even as national job creation stalls. In July, the province added 5,800 positions, in sharp contrast to 30,400 Canadian decline. So far this year, the province has led all provinces in job growth at 3.2%. The creation of 74,200 full-time positions over this period has more than replaced the loss of 7,300 part-time positions. Moreover, the year-to-date job gains have come almost entirely from the private sector, which has added 65,100 jobs.

The goods sector, which represents a third of total employment in the province, has created two thirds of the new jobs this year. The majority of new goods producing jobs have come from the oil & gas extraction industry.

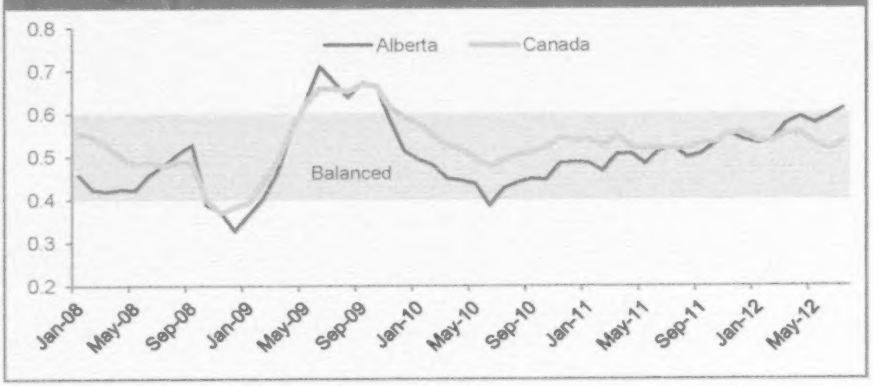
Strong job gains have pushed down the unemployment rate to 4.6% in July, down from 5.5% the same month last year. Alberta has held the lowest unemployment rate in Canada over the last three months.

Resale housing market moves into sellers' territory

Strong inter-provincial migration and a robust labour market have boosted housing demand in Alberta. Sales of existing homes were up a solid 10.6% in July from the same month last year, and have increased 13.8% year-to-date. With July's sales numbers, the resale housing market crept into sellers' territory for the first time in almost three years. The sales-to-new-listings ratio currently stands at 0.61, just above the 0.6 threshold for a sellers' market (see Chart 2).

Home builders have continued to respond to improved housing market conditions. Housing starts have grown 46.2% in the first seven months of the year compared to the same period in 2011. Moreover, continued growth in residential building permits indicate strengthening home construction and renovation activity. In the first half, residential permits are up 22.6% over the same period last year.

Chart 2: Resale Market Sales-to-New Listing Ratio



Source: Canadian Real Estate Association

Inflation pressures remain contained

July's CPI inflation rate came in at 0.9%, which brought Alberta's year-to-date average down to the lowest in Canada at 1.4%. Growth in consumer prices has been held down by falling energy prices, along with weak growth in house prices and moderate growth in food prices.

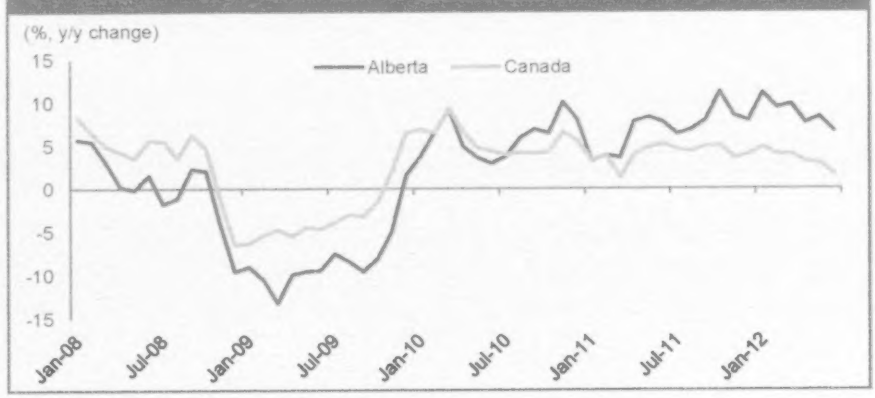
Earnings growth picks up in June

Average weekly earnings increased at the fastest pace since August 2011, rising 1.5% month-over-month in June. Weekly earnings are now up 2.7% in the first five months of the year compared to last year, a deceleration from the 4.6% pace in 2011. Alberta earnings remain the highest in Canada by a wide margin and are growing well above inflation this year, implying improvements in real (inflation adjusted) earnings.

Consumers keep shopping, help boost the economy

Alberta continues to lead the country in retail sales growth, supported by the province's thriving labour market (see Chart 3). Sales are up an impressive 8.8% in the first half over last year's levels. Vehicle purchases are helping to drive sales this year, having increased 17.2% year-to-date. In tandem with increased housing activity, Albertans are also buying more home related products than last year. Furniture store sales are up 9.0% year-to-date and building materials and gardening equipment are up 8.0% over the same period.

Chart 3: Growth in Retail Sales



Source: Statistics Canada

Participation in Alberta's Evolving Labour Force

Alberta's rate of labour force participation has trended upwards since the 1970s. Women and older workers have led the increase, dramatically boosting their participation in Alberta's workforce. However, a growing proportion of the population is reaching retirement age. Going forward, this will put downward pressure on labour force participation in Alberta and across Canada.

Alberta's labour force participation rate remains near historic highs

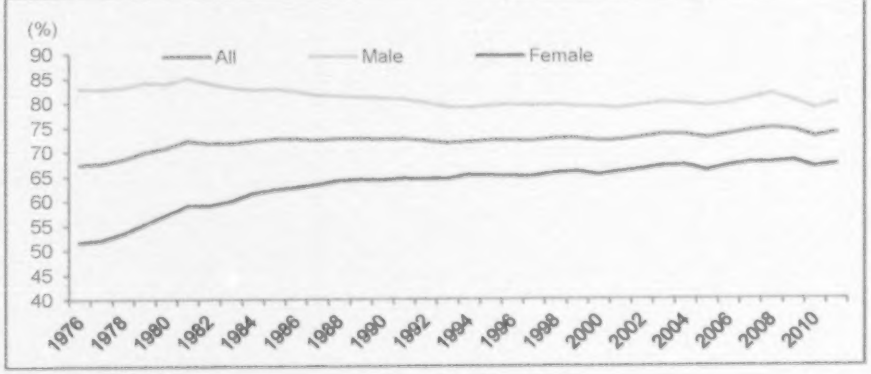
Over the last three decades, Alberta has had Canada's highest labour force participation rate,as measured by the share of the population (ages 15+) working or looking for work. At 73.3%, Alberta's participation rate (as of July) is well above the national average of 66.5% and not too far removed from the 75.3% record set in October 2008.

Labour force participation rates are impacted by a number of factors, including the state of the economy and the share of the population in their peak working age. Alberta's high participation rate can be attributed to both factors: a young working age population and a strong economy.

Upward trend in participation

In the 1970s, Alberta's labour force participation rate started to climb. Part of this increase reflects Alberta's fast growing economy, which made it easier for people to find work. In addition, two important demographic developments played a role. First, the baby boomer cohort (those born between 1946 and 1965) came of working age and entered the labour force in great numbers. Second, an increasing share of women started working. As a result of these factors, Alberta's labour force participation rate grew from 67.4% in 1976 to 73.7% in 2011. Alberta women were responsible for the rise, increasing their labour force participation from 51.6% to 67.3% over this period. These demographic influences have contributed to a 35 year upward trend in Alberta's labour force participation.

Chart 1: Alberta Labour Force Participation Rates



Source: Statistics Canada

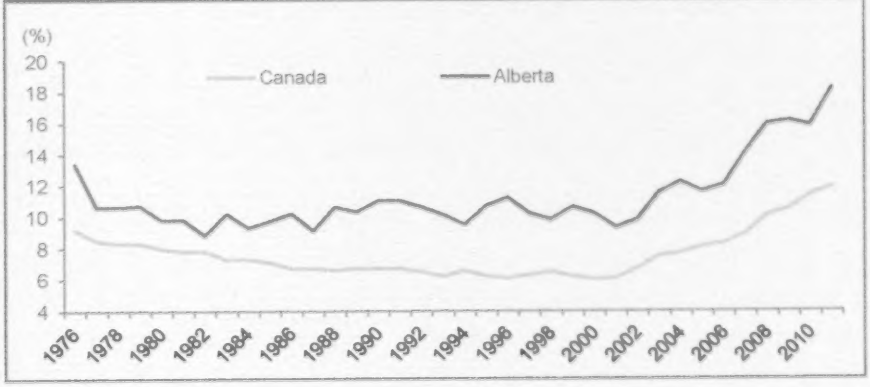
Increased participation seen among older workers

In more recent years, increases in labour force participation rates have come predominately from older workers. As shown in Chart 2, labour force participation rates of Albertans aged 65+ have nearly doubled from 9.8% in 2001 to 18.3% in 2011. Likewise, participation of the 55-64 age group has increased from 62.2% to 72% over the same period.

In contrast, there has been no clear upward trend in the participation rates of younger Albertans. Between 2001 and 2011, Albertans aged 15-54 have increased their participation by only 0.3 percentage points from 83.4% to 83.7%.

The story is similar for Canada. Between 2001 and 2011, participation of Canadians aged 55-64 increased from 51.2% to 62.9% and of Canadians aged 65+, it increased from 6.1% to 11.9%. Again, there was no significant change for younger Canadian workers over this time period, with participation of Canadians aged 15-54 increasing from 80.4% in 2001 to 81.2% in 2011.

Chart 2: Labour Force Participation Rates for Ages 65+



Source: Statistics Canada

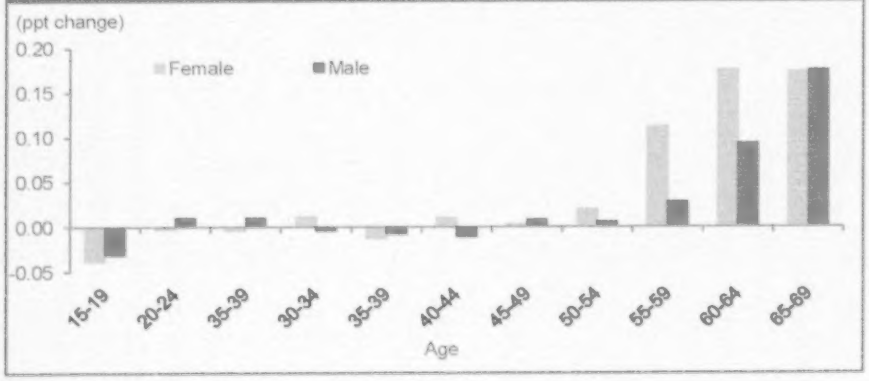
Older female workers see strongest gains

Women have led the increase among the older age groups, seeing a much stronger increase in participation rates than males (see Chart 3). Indeed, the vast majority of the increase in overall female participation rates over the past 10 years can be explained by the 55+ age group.

Work patterns changing among older workers

The rise in labour force participation among older workers reflects a shift in retirement and work patterns. Traditionally, Canadians have tended to retire by the age of 65; however,

Chart 3: Change in Alberta Labour Force Participation Rates by Age and Gender (2001-2011)



Source: Statistics Canada

this is changing. In 2008, Canadians expected to retire by the age of 65 on average but by 2011 this age increased to 68.* A shift has already been observed: Statistics Canada reports that the median age of retirement in Canada has increased from 61.0 in 2001 to 62.3 in 2011.

Several factors may be contributing to increased labour participation among older Albertans:

- Advances in healthcare are allowing many individuals to remain in the workforce past the traditional age of 65. In Alberta, life expectancies at birth have increased significantly in recent years, with female life expectancy increasing from 81.1 years in 1992 to 82.6 years in 2011, and male life expectancy increasing from 75.4 years to 77.9 years over the same period. Life expectancies at birth are projected to increase to 85.6 years for females and 82.4 years for males by 2041 according to Alberta Treasury Board and Finance. With the expectation that people will live longer, working past the age of 65 is a trend that is likely to continue.
- A shift towards more flexible work arrangements, including more part time work, has allowed for a more phased in approach to retirement. In 2011, approximately 50% of Canadians expected to phase in their retirement.* The shift toward phased retirement is evident in the shorter work weeks of Albertans older than 65 (they are remaining in the workforce without committing to full-time hours). Between 1976 and 2011 the average work week of Albertans aged 65 and over has decreased from 39.1 hours to 29.7 hours. Similarly, the average workweek of Canadians aged 65 and over has declined from 31.7 hours in 1976 to 27.7 hours in 2011. The movement toward flexible work arrangements has the potential to ease the impact of aging on the labour force.
- Finally, some Albertans may be staying in the labour force longer because of lack of saving or inadequate return on their investments. After a sharp correction during the recession, equity markets in Canada and the US still remain below their 2007 peaks. Additionally, the returns on Canadian Government bonds, which have been a traditional form of investment income for retirees, are barely keeping up with inflation. As such, many Albertans may not have saved enough for retirement, keeping them in the workforce longer.

Going forward, population aging will constrain future participation in the labour force

Rising labour force participation among older workers has helped keep Alberta's overall participation rate elevated. However, population aging is a powerful force, and its impact on labour force participation will be difficult to fully offset going forward. The oldest of the baby boomer cohort turned 65 last year, meaning that an increasing share of the population is entering retirement age. Based on the latest Alberta Treasury Board and Finance medium case population projection, Alberta's old age dependency ratio (the share of people aged 65+ relative to the working age population (15-64)) is expected to increase from 21.7% to 29.1% by 2041 as the baby boomer cohort moves into the 65+ age bracket. Canada's old age dependency ratio is also expected to nearly double by 2041, increasing from 20.8% in 2011 to 39.7% in 2041, according to the most comparable medium case projection from Statistics Canada .

At both the provincial and national levels, more people are approaching retirement than are coming of working age. Consequently, over the next 30 years, aging will put downward pressure on labour force participation rates. However, after 2041, old age dependency ratios should begin leveling off as mortality sets in for the baby boomers.

Conclusion

The baby boomers, the largest demographic cohort, are now entering retirement age. Population aging of this magnitude will have profound downward effects on labour force participation rates. Shifting retirement patterns, including the move toward more flexible work arrangements, have the potential to partially offset some of the labour force impacts of population aging.

However, the aging effects will be difficult to overcome. With fewer workers available for every retired person, the burden of economic activity will fall on a smaller share of people. This highlights the need to boost labour productivity in order to maintain higher overall living standards in Alberta and across Canada.

* 2012 Sunlife Canadian Unretirement Index report. Sunlife Financial.

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